

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) S-02-384-03-TO02
Whether there has been a violation of the)
Securities Act of Washington by:) SUMMARY ORDER TO CEASE AND
MICHAEL S. KAMINSKI and DONALD W.) DESIST AND NOTICE OF INTENT TO
BELL) IMPOSE FINES
Respondents)
_____)

THE STATE OF WASHINGTON TO: Michael S. Kaminski
Donald W. Bell

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Michael S. Kaminski and Donald W. Bell, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations and under RCW 21.20.395 to impose fines. The Securities Administrator finds that delay in ordering the Respondents to cease and desist from such violations would be hazardous to the investors and to the public and that a Summary Order to Cease and Desist should be entered immediately. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I. RESPONDENTS

1. Michael S. Kaminski ("Kaminski") is president of Preferred Funding, Inc., a Washington corporation that was formerly a registered mortgage broker-dealer under ch. 21.20 RCW that offered and sold mortgage paper securities as defined in WAC 460-33A-015. From

SUMMARY ORDER TO CEASE AND DESIST AND
NOTICE OF INTENT TO IMPOSE FINES

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 October 1991 until April 2002, Kaminski was also licensed by the Washington State Bar
2 Association as an attorney.

3 2. Donald W. Bell ("Bell") was vice president of Preferred Funding, Inc. during 2001
4 and 2002. From March 1968 until June 1994, Bell was licensed by the Washington State Board
5 of Accountancy as a Certified Public Accountant.

6 II. PRIOR ADMINISTRATIVE ORDER AGAINST PREFERRED FUNDING, INC.

7
8 On December 10, 2002, the Securities Administrator of the State of Washington entered
9 S-02-384-02-TO01, a Stop Order Suspending Effectiveness, Denying Re-Registration and Order
10 Revoking Exemptions ("Stop Order"), against Preferred Funding, Inc. ("Preferred"). The Stop
11 Order suspended the securities registration of Preferred and revoked the availability of
12 exemptions under RCW 21.20320(1), (5), (9), (11) and (17) to Preferred and its agents or
13 affiliates. The Tentative Findings of Fact set forth in the Stop Order are hereby incorporated as
14 background information for this order. As provided in the Stop Order, the Securities Division
15 continued its investigation of Preferred to determine whether any additional enforcement action
16 should be taken. This order is the result of that investigation.

17 III. MISREPRESENTATIONS ABOUT PROJECT HOLDBACKS

18
19 During 2001 and 2002, when offering and selling notes secured by deeds of trust,
20 Preferred Funding, Inc., Kaminski and Bell represented to more than two hundred investors in
21 four different loans (the Cliffs, Lake Oswego, Union View and Vista del Mar projects) that funds
22 totaling approximately \$900,000 would be held back for interest reserves or used to pay
23 construction costs.

24 Kaminski and Bell were each signers for the bank accounts where the investors' funds
25 were deposited. Kaminski and Bell each failed to maintain the proper reserves and each failed to

properly administer the loans. Because the holdback funds were not applied to the loans for which they were held back, the investors were required to make additional contributions to replace the missing funds.

IV. THREAT TO THE INVESTING PUBLIC

The Securities Administrator finds that the offering of notes in the manner described above presents a threat to the investing public.

Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

I.

The offer and sale of the notes described in the Tentative Findings of Fact constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12).

II.

The offer or sale of said securities was made in violation of RCW 21.20.010 because Kaminski and Bell each made in connection with the offer and sale of said securities untrue statements of material fact or omitted to state material facts necessary to make the statements made not misleading.

III.

The Securities Administrator finds and concludes that an emergency exists, that Kaminski's and Bell's violations of RCW 21.20.010 constitute a threat to the investing public, and that summary orders to cease and desist from those violations are in the public interest and necessary for the protection of the investing public.

NOTICE OF INTENT TO IMPOSE A FINE

1 Based upon the misrepresentations made in connection with the offer and sale of the
2 notes described in the Tentative Findings of Fact and Conclusions of Law, the Securities
3 Administrator finds that there have been knowing or reckless violations of the Securities Act
4 of Washington by Michael S. Kaminski and by Donald W. Bell that justify the imposition of a
5 fine pursuant to RCW 21.20.395. Therefore, the Securities Administrator intends to order
6 Michael S. Kaminski to pay a fine of \$15,000 and Donald W. Bell to pay a fine of \$10,000.
7

8 **SUMMARY ORDER**

9 NOW, THEREFORE, IT IS HEREBY SUMMARILY ORDERED that Michael S.
10 Kaminski and Donald W. Bell and their agents and employees shall each cease and desist from
11 offering or selling securities in any manner in violation of RCW 21.20.010, the anti-fraud section
12 of the Securities Act of Washington.

13 **AUTHORITY AND PROCEDURE**


14 This Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395
15 and is subject to the provisions of RCW 34.05. The respondents, Michael S. Kaminski and
16 Donald W. Bell, may each make a written request for a hearing as set forth in the NOTICE OF
17 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
18 order.
19

20 If a respondent fails to make a timely hearing request, the Securities Administrator
21 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and make
22 the summary order to cease and desist permanent as to that respondent and impose the fine
23 sought against that respondent. The Securities Administrator may enter a final order imposing
24
25


1
2
3 the fine, file a certified copy of the order in superior court and proceed to collect the fine in
4 accordance with RCW 21.20.395.

5 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.


6 Dated this 19 day of May, 2003

7
8
9 
10 DEBORAH BORTNER
11 Securities Administrator

12
13 Approved by:

14 
15 Michael E. Stevenson
16 Chief of Enforcement

17 Presented by:

18 
19 Janet So
20 Financial Legal Examiner